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Special Hardware Show Section—page 63

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***Only last month**, Monus (r.) cut the ribbon on Phar-Mor's 300th store in Ashtabula, Ohio, with store manager Chuck Campbell.*

Deep Discounter In Deep Despair

Phar-Mor Fraud Fouls Future

By Arthur Markowitz

YOUNGSTOWN, Ohio — Phar-Mor faces an uncertain future following company disclosures that two top executives—who have since been fired—perpetrated "a fraud and embezzlement scheme" involving millions of dollars, forcing the deep discounter to take a $350 million write-off.

Phar-Mor called in the FBI and the U.S. attorney here to investigate "possible criminal wrongdoing" by the two officers, Michael I. Monus, a co-founder and former vice chairman, president and chief operating officer, and Patrick Finn, formerly chief financial officer. But as of Aug. 7, no charges had been filed against the two men, who were

(Continued on page 4)

Ames Stumbles Again On Road to Recovery

Must Revise Projections After Ad Cutback Misfires

By Pete Hisey

ROCKY HILL, Conn. — Ames' struggle to emerge from Chapter 11 continues.

"We're seeing progress in our negotiations with all constituencies," chief financial officer Peter Thorner told *DSN*. "Our comparable store sales were up 4% in July, reversing a trend over the past few months."

However, the company has had to revise its projections, due in large part to a decision to "reallocate" advertising spending on circulars in the first half, which resulted in a $50 million dip in sales compared to projections.

"We had indications, particularly from the East Hartford [prototype] store, that the [new specialty] departments were so successful on a word-of-mouth basis that we could try reducing our advertising," Thorner said.

Three and a half circulars were dropped in the first quarter, and sales dropped with them.

"Since each circular normally has a $10 million to $12 million impact on sales, we think the $50 million drop in sales [against projections] is attributable to the ad cutback," Thorner explained. "It was something we felt we had to try, and we didn't want to experiment in the latter part of the year."

Ames feels that the cutback in advertising is something that will work eventually. "It was just too soon," Thorner said. Once burned, the chain will maintain its traditional level of ads through the year, putting it back on projection.

***Ames' prototype** focuses on specialty concepts like Home as part of its strategy to emerge from Chap. 11.*

In a Form 8-K released to vendors in July, Ames reported that its projected sales will return to last year's levels in August and by December should easily exceed fiscal 1992 results.

The company projects sales of $172 million to $187 million in August, vs. $188 million in August 1991, but sales of between $447 million and $462 million in December compared to $426 last

(Continued on page 90)

Bradlees Remodeling Rolling On

By Richard Halverson

BRAINTREE, Mass. — Bradlees continues to refine its prototype as its remodeling program for 1992 passes the halfway mark.

Over the past two weeks, Bradlees celebrated the grand re-opening of seven more stores, pushing the count to 15 for the year. In October and November, Bradlees will reopen 10 more units, for a 1992 total of 25 remodeled stores. In addition, Bradlees relocated this April its unit in Taunton, Mass., increasing it to prototype size of 88,000 sq. ft. from 50,000 sq. ft.

For 1993, Bradlees plans to replace two smaller stores with prototype units and remodel 24 others.

By 1994, Bradlees expects to have completed its remodeling program, except for about 15 stores it deems too small to warrant renovation. A decision about either closing or relocating those smaller units remains pending.

(Continued on page 88)

INSIDE THIS ISSUE

Walton's 10 Rules to Success page 24

Retailing and the Environment page 27

37

53

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Pace Already in Place as 3 Clubs Race for N.J. Sites

PARAMUS, N.J. — Three major membership warehouses are striving to open clubs in this suburban New York City market—a retailing hotbed—with markedly different results.

Pace Membership Warehouse is the winner, while BJ's Wholesale Club may or may not be in the race, with Sam's Club seeking to just get to the starting gate.

The results of the three clubs' efforts denote the challenge facing all merchants looking to grow in the Northeast—the limited availability of sites, countered by the chance to recycle stores shut by bankrupt chains, along with increasing local opposition to new stores, with opponents citing environmental considerations to stop retailers.

Pace is due to open a 110,000-sq.-ft. club here in mid-October at the southeast junction of Route 4 and Route 17, two exceedingly heavily trafficked arteries. Pace has built

(Continued on page 88)

Underwood Speaks Out On Partnership, SPARC

By Laura Liebeck

Bill Underwood

TROY, Mich. — The words "communication" and "partnership" are interchangeable in the vocabulary of Kmart's top hard lines merchandising executive Bill Underwood.

As such, he will refer alternately to them quite often during the SPARC (Supplier Performance Awards by Retail Category) banquet, honoring the manufacturers who are best at fulfilling the unique needs of discount retailers.

As SPARC committee chairman, Underwood intends to stress the importance of the relationship between retailer and vendor in today's highly competitive and ever-changing retail environment.

"Everyone today is looking to satisfy the customer or consumer. It is paramount in why we have to work together," said Underwood, in an exclusive interview with *DSN* prior to the award banquet.

Underwood, who serves as senior vice president, general merchandise manager, hard lines, for the nation's second largest retailer, will be master of ceremonies this year, SPARC's 15th anniversary celebration.

(Continued on page 83)

Holiday Sales Predictions Mixed

Wall Street is Bullish; But Retailers are Wary

Nationwide DSN Report

The early predictions for holiday 1992 are mixed, but basically stack up like this: Wall Street is fairly bullish, retailer views can be summed-up as a customary "cautious optimism," while consumers are leaning bearish, according to several industry sources.

Speaking before members of the New York Society of Security Analysts, Ed Johnson, director of The Johnson Redbook Service, a division of New York-based brokerage house Lynch Jones & Ryan, said, "We fearlessly predict that sales for the holiday season will be up better than 6% over a year ago."

He added that while Christmas 1992 won't be a cash register victory, it will be "a bonanza compared to the 2% to 3% year-to-year sales increases we had last fall and a step in the right direction for a longer term sustainable general merchandise sales trends."

Discount retailers who scratch their heads wondering how Johnson can be so optimistic would be interested to know that when *DSN* asked Johnson how discounters and chain stores in particular would fare during holiday 1992, his forecast doubled.

He predicted that department store and mass merchant performance during holiday 1992 would be less than 6% over 1991, while discounters and chain stores would approach 12% improvement over the season last year. He said the outcome of the upcoming elections would not have a material effect on the holiday selling season.

George Jones, president of Rose's, said while Johnson's figures sound overly optimistic, he was glad to hear a forecast not brimming with gloom and doom. "More power to Mr. Johnson. Retailers have been hurt by gloom and doom forecasts which hurt consumer confidence," he said.

While Rose's is forecasting an increase in fourth quarter sales over 1991, "it is not because of the economy but because we will be reaping the benefits of remerchandising our stores to give more space to higher turning assortments," Jones explained.

Unlike Johnson, Jones believes the outcome of the presidential elections will "obviously be a major factor" in consumer spending in the fourth quarter.

Stephen Pistner, chairman of Ames, noted that he remains "extremely cautious" about the New England economy, but does expect the region to begin to rebound.

From a consumer perspective, The Conference Board reported its consumer confidence index registered a "stark loss of 11.6 points" for the month of July, and consumer's views about the future were even more bleak.

Less than 20% of the 5,000 consumers surveyed thought business conditions will improve, and only 14% expect that more jobs will become available and more than 22% anticipate there will be fewer jobs available—all of which reflect in consumer confidence compared with the survey conducted a month earlier.

In other projections for the balance of 1992, the National Housewares Manufacturers Association (NHMA) stated in its April *Housewares Indexes* newsletter: "The overall pace of growth in consumer spending in 1992, however, will be slow. This will be due to a slow rebound in employment and incomes." But the latest edition which was published in July stated: "The turnaround in consumer spending is firmly underway . . . and further improvements can be expected through the balance of the year."

TeleCheck Services, a leading check acceptance company, reported that its latest data "supports other signs of continuing weakness in the sputtering national economy such as high unemployment and declining consumer confidence."

Stuarts Banks on New Prototypes In Its Emergence From Chap. 11

FRANKLIN, Mass. — Stuarts Department Stores, just on the brink of emerging from Chapter 11, opened two new prototype stores earlier this month in its home state towns of Lawrence and Haverhill.

"We're thrilled with the early results," said Stuarts' president, Joe Ettore. "In Lawrence we're about four times over plan and at Haverhill we're just over three times the plan for the stores. That's been with no major advertising push."

In addition, Ettore reported the results were on transitional season goods and not on any clearance items.

The sites, former Ames stores, premiered with a number of new features. An expanded Gitano shop, twice as large as those in other Stuarts' stores, makes up part of the 60% soft goods mix. The apparel area has also been redesigned to provide a better flow from category to category, according to Ettore.

Changes made last year, including a move of the children's department to the front of the store, has been incorporated in the new look.

On July 23, Stuarts officially announced that the company and the committee of unsecured creditors filed a plan of reorganization and disclosure statement with the U.S. Bankruptcy Court for the district of Massachusetts.

As reported earlier, the reorganization plan calls for three cash payments to unsecured creditors: $5.2 million upon confirmation; $6 million on Dec. 31, 1992; and $5 million on Dec. 31, 1993. In addition, the plan provides for issuance of 80% of the common stock of the reorganized company to unsecured creditors.

According to Ettore, depending on when the plan is approved, the chain should emerge from Chapter 11 by mid-September. Stuarts filed for Chapter 11 bankruptcy protection in December 1990.

Wal-Mart Bows Speedy Check Writing System

BENTONVILLE, Ark. — Wal-Mart is rolling out chainwide a check writing peripheral to its POS terminals that speeds up the checkout of customers paying by check.

Wal-Mart has written its own application for the IBM Model 3 printer that conforms to the Unix operating system that the discounter is using for all electronic data processing systems.

The printer, labeled the IBM Express Check Writer by Wal-Mart, fills in all the information—name of the payee (Wal-Mart), date and amount—found on a check, so that a customer just has to sign. The in-store comptroller using the printer obtains the payment information from the POS terminals when the sale is rung up.

(Continued on page 88)

IN · THIS · ISSUE

FEATURES

Walton's Book Reveals 10 Rules for Success 24
DSN Announces DISC Award Winners 37
Underwood Speaks Out on SPARC, Partnerships 83

Special Supplements:

Retailing & The Environment 29
Future of Retailing: Renewable Resources 29
Discounters Wrap Up Plans to Recycle Packaging 30
More Environmental Action Urged by Retailers 33
Three 'R's Vital to 'Green' Goods 34

Home Office Merchandising 53

Retailers Attempt to Handicap PC Suppliers Race 53
Printer Prices Plunge at Retail 56

APPAREL 51

Big & Tall Potential Comes to the Forefront 51

HOME PRODUCTS 59

Memorex, Koss Move Into Portable Audio 59
MiniDisc, DCC Compete for Approval 61

HARD LINES 63

Hardware Gala Kicks Off in Chicago 63
Water-Saving Devices Offer Growth 65
Home Depot Outpaces Other DIY Retailers 74
National Brands Driving Tire Sales 79

DEPARTMENTS

Classified 86
Columns:
Buyers & Sellers 9
IMRA President's Corner 10
Sound Bytes 59
Taking Stock 10
Washington Report 14
Editorial 9
FinanceWatch 21
Marketwatch 51, 63

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MARKETWATCH

Glass Predicts 16 Units in Puerto Rico

FAJARDO, Puerto Rico — Wal-Mart could eventually have 12 discount stores and four Sam's Clubs in Puerto Rico, David Glass, president and chief executive officer, said at the opening of its initial discount store on the island, a 91,400-sq.-ft. unit here (see *DSN*, Aug. 3, page 1). Wal-Marts will be opened later this year in Arecibo and Mayaguez, with units already planned for Cayey, Guayama, Humacao, Isabela and Canóvanas. The chain plans to run pharmacies in its stores but small drug stores have complained to the island's Health Department and that could delay awarding of permits. *The San Juan Star* reported that Kmart has been waiting six years for pharmacy permits for its 12 stores.

Rose's Names Two Execs to Board

HENDERSON, N.C. — Rose's Stores has expanded its board of directors by two for a total of 12. The two new directors are Frank Daniels Jr., president and publisher of the Raleigh-based News and Observer Publishing Co. and Robert K. Montgomery, senior partner with the international law firm Gibson, Dunn and Crutcher.

Gigante Sales Flat; Profits Drop by 35%

MEXICO CITY — Grupo Gigante, the 131-unit hypermarket based here, reported sales for the first half of the year ended June 30 were up less than 1% to $818.6 million, while operating profits plummeted by 35% to $27.1 million (based on the conversion rate of 3,123 pesos to the dollar). Gigante has begun conversion of the Blanco stores, following the acquisition of 93.58% of capital stock of its parent, Blanes, S.A. at the end of April. Twenty of the Blanco stores were incorporated into the Gigante chain during June. Sales generated at these new stores represented 2.5% of consolidated sales for the company in the second quarter. In April, Gigante opened two new stores, in Guadalajara and Matamoros. Gigante had also entered into joint ventures with U.S. firms Fleming and Tandy Inc.

Sears Extends Office Center to Atlanta

CHICAGO — Sears has completed its initial national rollout of the Office Center at Sears Brand Central by opening home office departments at in the Southeast in five Atlanta area stores. This followed unveiling of the sections, which average 2,000 sq. ft. within a Brand Central, in June and July in 37 Southern California and Pacific Northwest Sears. Last year Sears tested the concept in 10 Washington and Richmond, Va., stores and then opened 60 centers in Eastern and Midwestern stores. The Atlanta stores are in the Northlake and Cumberland malls and in suburban Duluth, Kennesaw and Morrow, Ga.

Phillips Div. Sells Food-4-Less Chain

BENTONVILLE, Ark. — Phillips Cos., Wal-Mart's supermarket subsidiary, has sold for an undisclosed price the Food-4-Less warehouse-type supermarkets in North Little Rock and adjacent Jacksonville,, Ark., to Jitney Jungle Stores of America, which already operates MegaMarket supers in the two markets. Wal-Mart in October '91 acquired the $300 million, privately held Phillips, which then had 20 stores, for $8 million in stock to enhance the discounter's food expertise and strengthen the development and growth of the Wal-Mart SuperCenter. Phillips had owned MegaMarkets in the Greater Little Rock area but sold them in 1990 to raise funds to acquire Walton Enterprises holdings of Phillips stock. Little Rock is seen as a likely area for future Wal-Mart SuperCenters.

Caldor Plans to Open 23; Remodel 20

NORWALK, Conn. — Caldor plans to add eight more stores this year. The northeastern regional chain plans to open units this fall in Philadelphia, Long Island, Delaware and New Jersey. Another 15 new stores are planned for 1993, with one new market entry—Rochester, N.Y.—planned. The chain will also remodel about 20 existing units to its 110,000-sq.-ft. prototype next year. To support the new stores, Caldor is building a second distribution center in Newburgh, N.Y., which will open in late September. The chain will fund the accelerated expansion program through a combination of internal cash flow and external lease financing, said chairman Don Clarke.

Phar-Mor In Deep Despair

Deep Discounter's Fraud Fouls Its Future

(Continued from page 1)

fired three days earlier.

Company officials asserted that Monus had diverted about $10 million of its funds to the seven-team World Basketball League—which he founded and owned and which suspended operations at the end of July—and had used an undetermined amount for his personal use and "cooked the books" to boost Phar-Mor's inventories so that the privately held retailers could report pretax profits.

The personal, financial and merchandising implications of the alleged embezzlement have begun to snowball beyond impacting just Phar-Mor.

These include questions as to who will head the $3.14 billion company—the leading deep discount drug chain—should its mounting financial problems be successfully resolved and it avoid having to file bankruptcy.

David S. Shapira, Phar-Mor's co-founder, chairman and chief executive officer, who was named president and chief operating officer July 27 to succeed Monus, is viewed as tarnished by the situation, even though he initiated the financial review that uncovered the alleged scheme and quickly disclosed the retailer's situation. Financial lenders and suppliers are concerned over his leadership of Phar-Mor and the board of directors' supervision of the company's top management.

Phar-Mor's investigation followed a tip, later found to be wrong, that Monus had paid some WBL bills with Phar-Mor checks. But a five-day, round-the-clock audit of its books then turned up irregularities.

Phar-Mor questioned why its auditor, Coopers & Lybrand, failed to uncover the fraud, and replaced it with Deloitte & Touche. Coopers contended that it hadn't finished its audit as the chain's fiscal year had just ended, and that collusion among top executives made fraud discovery difficult.

The $350 million write-off which reduced Phar-Mor's net worth to $220 million, mainly real estate and inventory, resulted in an undisclosed loss for the fiscal year ended June 30, 1992, and indicated that previous profitable years weren't so. In view of this, manufacturers and lenders are wavering in their support.

Banks, financial backers and investors—including Giant Eagle, a privately held Pittsburgh-based supermarket chain owned by the Shapira family that holds about 35% of Phar-Mor's stock—may have to write off millions of dollars of investments.

Other known major investors include Corporate Partners, a Wall Street investment firm, that spent $200 million for a 17% stake, Edward J. DeBartolo Sr., a Youngstown-based shopping center developer who holds less than 10%, WCC, Westinghouse Electric Corp.'s financial services subsidiary, which bought $50 million of subordinated debt and invested $26 million for about 3% of the common stock and SteinRoe Prime Equities Fund of Chicago, which owns 35,000 shares.

Phar-Mor has been meeting with its banks, headed by PNC Financial holding company of Pittsburgh National Bank, to retain their support. The banks have hired Peat Marwick to audit the retailer's books and were arranging a standstill agreement to suspend collection efforts until the audit is finished. The banks had provided a $600 million revolving credit line, and underwritten $155 million of privately placed senior debt.

Phar-Mor's now evident losses, along with the $4.7 million loss on $746 million in sales reported by Drug Emporium, the No. 2 deep discount drug chain, raised questions about the deep discount concept used by other retailers.

Monus, who presided over the opening of Phar-Mor's 300th store (see *DSN*, Aug. 3, page 1) just before being fired, had said that the retailer would become a national chain with more than 600 stores by 1995. Phar-Mor's likely scaling back of this program—it now is eyeing closing at least 27 unprofitable units and suspending expansion planned for next year—could boost the health & beauty care merchandising opportunities of full-line discounters, drug stores and supermarkets.

There were mixed reports about the support Phar-Mor was receiving from suppliers. Some were reported to be shipping goods slowly while awaiting further developments, while others were holding back supplies.

Phar-Mor, as expected, is trying to put the best face on its possible business-life threatening problems. Shapira said Phar-Mor "remains a strong company," was working on a plan to become profitable again and will open 10 planned stores by Sept. 9.

Still, it has begun a retrenchment, firing over 125 headquarters and distribution center people as a start.

Discount Retailers: July 1992 Sales Results

Chain	Total Sales (In $ Millions)	% Chg. from '91	Comp-Store % Chg. from '91
Best Buy	$ 86.0	46.0%	15.0%
Bradlees	107.0	2.7	(1.0)
Caldor	130.0	15.0	10.7
Circuit City	245.2	15.0	6.0
Consolidated Stores	75.4	16.8	(1.0)
Dollar General	55.7	26.5	20.2
Family Dollar	102.6	25.0	16.0
Filene's Basement	26.8	12.0	(2.0)
Jamesway	49.6	(3.1)	(2.0)
Kmart[1] Kmart Pace	2,691.0 1,875.0 326.0	13.3 9.5 23.5	7.5 7.0 11.6
Rose's Stores	91.5	2.6	2.6
Ross Stores	76.0	7.0	(2.0)
Sears	2,439.5	(1.8)	(2.2)
ShopKo	116.5	(1.8)	(5.1)
Target	NA	15.0	3.0
Value City	43.5	8.1	3.6
Venture	116.5	20.5	9.6
Wal-Mart[1] Sam's Club	4,315.0 1,000.0	28.0 35.0	13.0 11.0

[1]Total corporate sales ( )—decline NA—not available. Source: Company reports

NOTE

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